

DEFINING SOCIAL ENTERPRISE

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Abstract

There is no legal definition of the term *social enterprise* in the UK. Whilst the term has rapidly gained currency in recent years, there are still significant differences in the meaning attributed to *social enterprise* both between and amongst academics, practitioners and policy makers. This paper charts the use of the term *social enterprise* in the UK, from its early adoption by a regional voluntary sector agency in 1998, up to the publication of the government's policy document "Social enterprise: a strategy for success" in August 2002.

Three critical incidents are described. The origins of Social Enterprise London Limited is described and analysed for how this shaped the early meaning of the term *social enterprise*. The limitations of typologies as a vehicle for defining social enterprise are explored through participant responses to a series of Small Business Service sponsored training workshops for business advisers run during 2001. The origins of this typology are explored in depth. The paper demonstrates how the typology reflects the development of coalitions between organisations lobbying government policy makers, rather than an objective effort to construct a rationale for social enterprise. Finally, events leading up to the publication of the government's policy document on social enterprise are tracked for changes in the ways in which social enterprise has been defined by government.

The paper offers insights into how government enterprise policy is formulated, the significance of social capital in shaping constructs about social enterprise and the role of the practitioner as researcher.

Introduction

Social enterprise has become a recognised plank of the government's enterprise policies. In little over eighteen months after the term social enterprise first appeared in government documents, a Social Enterprise Unit has been established in the Department of Trade and Industry (DTI) and social enterprise has been made a ministerial responsibility. The Small Business Service (SBS) is supportive of social enterprise, and all Regional Development Agencies have been instructed to develop policies in support of social enterprise.

Despite its high profile in government policies, the term social enterprise has neither a legal definition nor a working definition that is fully accepted by all policymakers, academics and practitioners. In part this may be due to the relative newness of the term. Although the term has been used in the USA since at least the early 1990s, it only became current in the UK towards the end of the 1990s.

The aim of this paper is to explore how the term social enterprise has acquired meaning in England and to illustrate how practitioners, policymakers and academics influence each other in the development of new ideas. It examines three critical incidents that have shaped the meaning of social enterprise in England and reflects on these incidents to draw conclusions about the future development of social enterprise practice.

Critical incident 1: The creation of Social Enterprise London

Social Enterprise London (SEL) is a regional development agency, established in April 1998. It was the first organisation in the country to incorporate the term social enterprise in its name, and is generally recognised to be the pioneer of social enterprise development in the UK. The origins of SEL provide some insight into the meaning that has been attached to the term *social enterprise*.

SEL was created by the merger of two organisations: London Co-operative Training (LCT) and the London Industrial Common Ownership Movement (LICOM). LCT was set up in the mid-1980s by a

dozen or so local co-operative development agencies in London. Its purpose was to administer European and local government funding for training programmes designed to help people establish and run co-operative businesses. LICOM was a regional membership organisation for workers' co-operatives, most of which were clients of the co-operative development agencies that had created LCT.

From the late 1970s onwards most left-wing London borough councils funded a local co-operative development agency. Workers' co-operatives were part of Ken Livingstone's socialist vision and the alternative economic strategy of the Greater London Council (GLC). The GLC poured millions of pounds into co-operative development. This contributed to the spectacular growth of workers' co-operatives, from a handful in the mid-1970s to over 1,500 a decade later.

Most workers' co-operatives were ideologically driven, especially those that were members of LICOM and its national sister body, the Industrial Common Ownership Movement (ICOM). The history of ICOM is littered with ideological schisms between those who promoted common ownership principles, where the capital of the enterprise is indivisible between members, and employee ownership alternatives, such as the models promoted by Job Ownership Ltd, where employees own a personal stake in the enterprise. Until 1995 common ownership was at the heart of the socialist agenda of the Labour Party, articulated in Clause Four of its constitution.

By the mid- to late-1980s it was becoming clear that the rate of formation of new workers' co-operatives was not only falling but had dropped to a level where new registrations were barely keeping pace with the closure of established co-operatives. During this period I worked for LCT as an independent external monitor of the training courses it was funding. There were some very good courses, but it was becoming evident that fewer and fewer of the trainees were establishing co-operatives. Less than a quarter of trainees thought that a workers' co-operative was the right structure for their business idea; the rest thought that partnerships, private business or self-employment were more appropriate structures.

Meanwhile, the number of co-operative development agencies in London dwindled as local authorities made cutbacks in their grant funding. The co-operative development agencies that survived were beginning to work with other types of social economy initiative including community businesses, regeneration schemes, credit unions and employment and training projects.

The extent to which the loss of interest in workers' co-operatives was due to the ideology of common ownership has not been established. But even if the practitioners thought there was no problem with common ownership, the politicians clearly thought there was. Shortly after being elected leader of the Labour Party in 1994, Tony Blair launched a campaign to revise Clause Four of the party, removing all mention of common ownership. A year later it was gone. This left LCT and LICOM in a difficult position. The activists in both organisations were reluctant to give up the ideology of common ownership co-operation, but they were rapidly losing political and financial backing.

In February 1997 I was asked to facilitate a strategy day for LCT and LICOM to discuss the future of both organisations. Merger of the two organisations had frequently been mooted but always rejected. However it was clear that the London Boroughs Grant Unit would not continue to fund LCT and LICOM as separate organisations, or as organisations devoted exclusively to workers' co-operatives. Workers' co-operatives and common ownership principles were seen as a minority interest, outdated and irrelevant to the problems of social exclusion and community regeneration, two of the main issues of concern to the London Boroughs Grant Unit.

A merger, plus a broadening of stated objectives, seemed to be the only way forward. The challenge was how to get the activists at this meeting to think the same thing. As it turned out, the merger proposal was quickly accepted, but finding a new name for the merged organisation proved to be far more difficult. Some people refused to give up terms like common ownership or co-operative. They saw other types of organisation, such as development trusts and social firms, as a dilution of co-operative principles. After hours of debate the task of choosing a name was delegated to the steering group for the new organisation. A month later they came up with the name Social Enterprise London.

The choice of the term social enterprise was pragmatic, calculated to regain political and public interest in the work of co-operative development agencies. However, there was little discussion or agreement about what was actually meant by the term social enterprise.

SEL was formally established in April 1998. One of its first actions was to plan a major conference in order to raise its profile with the public, practitioners and politicians. It hoped to attract up to 250 delegates. Much to the surprise of SEL, the event, which was held in January 1999, was massively over-subscribed. More than 450 people attended the conference. Clearly the label social enterprise had done the trick of stimulating interest.

The conference report offered the following tentative definition of social enterprise –

Social Enterprises are businesses that do more than make money; they have social as well as economic aims and form the heart of what is now coming to be known as the “Social Economy”. Aims include the creation of employment, stable jobs, access to work for disadvantaged groups, the provision of locally based services and training and personal development opportunities.

The conference report also contained a typology of social enterprise organisations that included co-operatives, community businesses, credit unions, social firms and intermediate labour market projects. There was no mention of development trusts, the trading arms of charities, or social businesses.

Critical incident 2: Developing a social enterprise typology

Following its inaugural conference in January 1999, SEL became the focus of national interest in social enterprise. It came under increasing pressure to provide information about social enterprise, which resulted in its March 2001 publication, *Introducing Social Enterprise*.

The publication is ambivalent about the importance of defining social enterprise. It says “*Trying to define a social enterprise can be like trying to define an elephant blindfold –very difficult and rather pointless, because you certainly know one when you see one.*” However, the publication goes on to present a typology (see Table One) of social enterprise based on three defining organisational characteristics –

- Explicit social aims
- Social ownership structure
- Enterprise orientation, involved in the production of goods and/or services.

Table One: Types of Social Enterprise

CO-OPERATIVES are associations of persons united to meet common economic and social needs through jointly owned enterprises.

EMPLOYEE-OWNED BUSINESSES create jobs and preserve jobs as part of economic development strategies.

CREDIT UNIONS and community finance initiatives provide access to finance.

COMMUNITY BUSINESSES are social enterprises that have a strong geographical definition and focus on local markets and local services.

CHARITIES’ TRADING ARMS enable charities to meet their objectives in innovative ways.

DEVELOPMENT TRUSTS are key actors in community-based regeneration.

SOCIAL FIRMS are small businesses created to provide integrated employment and training to people with disabilities and disadvantages.

INTERMEDIATE LABOUR MARKET COMPANIES provide training and work experience for the long-term unemployed.

SOCIAL BUSINESSES are non-profit businesses, often set up to support the work of a charity or non-governmental organisation.

Taken from *Introducing Social Enterprise*, SEL, 2001.

The typology is a curious mixture of organisational forms. Some are legally defined and regulated forms of organisation, such as credit unions and co-operatives. Others, such as development trusts and social firms, are self-defined and self-regulated by national representative bodies. A few of them, including social businesses and intermediate labour market companies have no legal definition, nor any national representative body regulating their form.

Compared with the SEL's first typology in the 1999 conference report, the 2001 typology expanded the list to include employee-owned businesses, development trusts, the trading arms of charities and social businesses. This reflected the growing alliance between SEL and other forms of organisations drawn to the banner of social enterprise. It also marked a distinct shift away from a narrow commitment to common ownership towards other forms of social ownership.

At the same time as the publication of *Introducing Social Enterprise*, I was commissioned by SEL to design a series of training seminars in social enterprise. This project was part-funded by the Small Business Service and was intended to be the vehicle for engaging Business Link staff in the social enterprise agenda.

In the absence of any legal definition of social enterprise, and in deference to SEL, I had adopted its approach to defining social enterprise, using the same typology (see Table One) but a modified list of key characteristics which I recast as –

- **Businesses** trading in the market economy
- In pursuit of a **social purpose**
- Building **social capital** through social ownership and the involvement of key stakeholders.

I also used the following simple definition: Social enterprises are businesses trading for a social purpose.

The seminars provided a first-hand opportunity to test this definition of social enterprise. The responses of participants provided insights into how practical and watertight these definitions and typologies would be in the hands of experienced business advisers.

Participants generally accepted the notion that social enterprises should be businesses trading in a market economy, but questioned whether this meant that all of the income of a social enterprise had to come from trading activities, or at least half, or just a small amount. There was confusion about the distinction between grants and contracts in some areas, especially public funding for the provision of training to unemployed beneficiaries. It was also pointed out that some social enterprises, such as development trusts, deliberately mix trading activities with volunteering, self-help and charitable giving.

There was far more disagreement about what constituted an acceptable social purpose for a social enterprise. Most participants preferred a narrow focus, equating social purpose with the pursuit of charitable objects, or non-profit distributing corporate structures. Participants struggled with the concept that the social purpose of a social enterprise could be embodied in its organisational values and principles, such as common ownership or democratic management.

Social capital, which refers to the underlying networks, norms and social ownership structures that bind stakeholders together in pursuit of a common (social) purpose, was generally accepted by participants to be a key characteristic of social enterprise. But there was a large measure of disagreement over what was meant by social ownership, and what legal rights key stakeholders should be granted within a social enterprise. The open and democratic membership rights granted by co-operatives were seen as unnecessarily restrictive by some participants, who argued that the beneficiary-trustee model adopted by charities could be more appropriate for some forms of social enterprise.

The typology was controversial. Some participants argued that co-operatives and employee-owned businesses did not fit the typology because they were just businesses with a different ownership structure. Others argued that credit unions were self-help groups not businesses. Questions were asked about why building societies and housing associations were not included in the typology, when they so clearly matched the defining characteristics. There was also scepticism about the use of the

term social business, which was interpreted as a catchall phrase for any type of social enterprise that did not conform to the descriptions of the other types of social enterprise.

Trying to define social enterprise by using typologies or describing key characteristics is fraught with difficulties. However, the problems of defining social enterprise only serve to underline the importance of developing a definition. SEL's typology of social enterprises reflects the alliances it has formed with other promotional bodies, rather than an objective analysis of organisational forms based on a set of agreed criteria. In developing these alliances there appears to be a reluctance to challenge the ideological underpinnings of different organisational forms.

Critical incident 3: The government's emerging commitment to social enterprise

The first recorded use in Parliament of the term social enterprise was on 25 June 1997 when the newly elected MP Patricia Hewitt asked a question about the government's Welfare to Work proposals. Hewitt asked whether there were plans to introduce social enterprise zones as a way of promoting new approaches to generating sustainable employment in disadvantaged communities. The concept of social enterprise zones was developed by the Institute of Public Policy Research (IPPR), Tony Blair's favoured think tank, and an organisation Hewitt had helped to set up. The response to Hewitt's question confused social enterprise zones with employment zones, indicating just how unfamiliar the term social enterprise was to the government.

Other than a passing reference to social enterprise in an Education Select Committee hearing in November 1997, the term was not uttered again in the House of Commons until 20 January 1999, when Gareth Thomas MP led a private members debate on social enterprise. Responding to the debate was the first parliamentary duty carried out by the newly appointed minister for small firms, Michael Wills MP. He had little to say about social enterprise other than that it was "... *important because it is part of a wider agenda of promoting all forms of enterprise.*"

SEL was already very well politically connected. Its board of directors included Labour peer and co-operative activist Baroness Glenys Thornton. In December 1998 she made an impassioned speech in the House of Lords promoting the cause of social enterprise and declaring her interest in SEL. She described social enterprises as –

"...self-help organisations which bring people and communities together to run their own businesses with the twin aims of economic empowerment and social gain. Specifically, they are democratic in practice and principle; they have explicit social and economic aims and values; and they earn income for their own financial independence and viability."

Her speech contained several references to the work of the Social Exclusion Unit, which had by then established a series of Policy Action Teams to address the problems of urban regeneration, disadvantaged communities and neighbourhood renewal. One of these teams, known as PAT 3, was championed by Patricia Hewitt, who was by then Economic Secretary to the Treasury and about to become the Minister for Small Business in the DTI. PAT 3 produced a report called *Enterprise and social exclusion*, which contained a series of recommendations that were to shape government policy on social enterprise.

The report contains a chapter devoted to social enterprise, yet it does not attempt to define social enterprise; instead it conflates social enterprise and the social economy. This makes it difficult to distinguish between its support for social enterprise and its criticism of other parts of the social economy, particularly voluntary organisations. The report overview criticises the public and voluntary sectors for being "*too stuck in a culture of grants*". By chapter five the report conflates social enterprises and the voluntary sector in one of its key recommendations that "*all interested parties should attempt to achieve a change in [the] culture of social enterprises and [the] voluntary sector, away from grants and towards loans.*"

Despite this lack of clarity the report contains some important recommendations that have furthered the cause of social enterprise in England, not least its recommendation that the Small Business Service and the Regional Development Agencies should have a remit to support social enterprises. Although SEL was not a member of PAT 3 it formed close alliances with some of its influential

members including the New Economics Foundation, which was invited onto the board of SEL. SEL also formed close links with the Small Business Service through a joint project with the British Bankers Association to produce a social enterprise information website.

Close links were also maintained with Patricia Hewitt. SEL invited her to make the keynote speech at its second national conference on 30 May 2001. Her speech contained three policy ideas for a re-elected Labour government. She proposed the creation of a body within government responsible for social enterprise, the promotion of social enterprise solutions to the modernisation of public services, and the review and reform of corporate legislation governing the sector.

Two weeks later, Labour was returned to power and Patricia Hewitt was appointed the Secretary of State for Trade and Industry. Amongst her first actions were the creation of the Social Enterprise Unit within the DTI and the appointment of a minister with responsibility for social enterprise.

The Social Enterprise Unit was meant to mirror the role of the Coalition of Social Enterprises, a body launched at the SEL 2001 conference. This body has the support of all the main national promotional organisations including the Co-operative Union, Social Firms UK, the Development Trusts Association, Job Ownership Ltd, as well as an assortment of other organisations including SEL, the New Economics Foundation and some high profile social enterprises such as the Furniture Resource Centre. The leading figure behind the creation of the Coalition was Baroness Glenys Thornton.

To mark the launch of the Coalition a Social Enterprise Charter was drawn up, which supporters were encouraged to put their name to. The charter includes the following description of social enterprises –

Social Enterprise is an umbrella term for organisations that achieve a variety of social aims predominantly, but not necessarily exclusively, by trading in goods and services. They are competitive businesses, which often will have invented innovative ways of meeting local needs.

This description, as well as promoting a typological approach to defining social enterprise, is tentative about the business model of social enterprises. It suggests that some types of social enterprise should not be expected to rely exclusively on trading activities for their income. This reflects the concerns of some of the Coalition partners that represent organisations that are, and always will be, dependent on grant aid, volunteers and altruism.

Meanwhile, the Social Enterprise Unit was quickly established. Within a couple of months it had appointed a director who built a staff team with the resources to draw together government policies and actions into a coherent strategy supporting social enterprise. The Unit started by consulting practitioners and academics about the meaning of social enterprise. During these consultations, in October 2001, the Unit issued the following statement about the definition of social enterprise –

"We see advantages in keeping the definition fairly broad. Most would agree that a social enterprise is a business with social objectives. It combines entrepreneurial skills with strong social purpose. Profits are re-invested in the business or in the community, offering the possibility of effective, sustainable self-help leading to wider benefits.

That definition, though, could be applied to many organisations, from struggling businesses run by a couple of people and almost wholly reliant on grants, donations or help in kind, through to large, successful trading companies in employee ownership.

While we can learn from both ends of the spectrum, our focus for action should be the middle ground. We should not rule out a business because it has part share holders [sic], providing its primary purpose is not simply to deliver share holder value, nor include a business just because it is run as a co-operative. Nor should we exclude those that have been established through grants or donations and use some unpaid help, and continue to rely in part on such funding and assistance, providing that they aim to generate a surplus through trading and to become increasingly self-sufficient while retaining their social purpose."

This statement challenged the co-operative movement's right to be included under the social enterprise umbrella. It led to a period of intensive lobbying by the co-operative movement through

many avenues, including its apex body the Co-operative Union, headed by Pauline Green, the former MEP and leader of the socialist group in the European Parliament.

The Social Enterprise Unit involved over 100 practitioners, policymakers and academics organised into eight working groups on the development of its policy document. By April 2002 the Unit had produced its draft strategy. It contained the following definition of social enterprise –

We define social enterprise as a business with primarily social objectives whose surpluses are reinvested for that purpose in the business or in the community, rather than being driven by the need to deliver profit to shareholders and owners.

It backed up this definition with the following list of characteristics displayed by successful social enterprises -

- *entrepreneurial, innovative, risk taking*
- *flexible and adaptable*
- *striving for autonomy and independence*
- *close to their customers and communities*
- *involving all stakeholders in achieving a common social purpose*
- *delivering in social and/or environmental as well as financial ways.*

However by the time the policy document was published in July 2002 some subtle but significant changes had been made to the definition, which now read –

A social enterprise is a business with primarily social objectives, whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

The insertion of the word *principally* into the draft version completely changes the definition of social enterprise. Instead of excluding investors as stakeholders in social enterprises, the definition allows for the possibility that there may be investors in social enterprises, who will expect a share of the profits in return for their investment risk.

Why did the government make this change? One explanation is that it came under pressure from the co-operative movement. Members of IPSA registered co-operatives are shareholders, albeit with different rights to ordinary shareholders in private enterprises. Dividends are restricted, each member has only one vote regardless of their shareholding and individual shareholdings are limited to £20,000. There are also restrictions on the transfer and sale of shares in IPSA registered co-operatives. Another explanation is that the DTI decided that investors could not be excluded as potential stakeholders in social enterprise. Social enterprises, like any other enterprise, need access to long-term risk capital. If social enterprises are restricted to raising loan capital, with fixed interest rates and a fixed repayment schedule, they will find it extremely hard to compete with private sector businesses raising equity capital with a variable dividend and no requirement on the enterprise to refund the investment.

Further evidence of the co-operative movement's influence over the definition of social enterprise can be detected in the changes made to the draft version of the characteristics of successful social enterprise. The final published version of the characteristics reads -

- *gaining independence and autonomy through trading;*
- *entrepreneurial, innovative, risk taking behaviour;*
- *flexible and adaptable practices;*
- *customers and community focus;*
- *stakeholder engagement;*
- *democratic and participative management;*
- *delivering socially and/or environmentally as well as financially; and*
- *financially viable, gaining their income from selling goods and services.*

The insertion of the bullet point *democratic and participative management* reflects the co-operative movement's attachment to the principle of democracy. Not all social enterprises are democratically organised. The other major change to the draft characteristics was the increased emphasis on the importance of achieving financial viability, independence and autonomy through trading activities. Again, this supports the position of co-operatives which are wholly enterprise orientated, at the risk of excluding other putative forms of social enterprise that are and always will be dependent on altruism.

Conclusions

Defining social enterprise has become a debate between competing practitioner lobbies in their efforts to influence government policymakers in favour of their own interests and ideologies. It has underlined the differences between the enterprise-orientated co-operative movement and other social enterprises that have evolved from the voluntary sector. Whilst some voluntary organisations have benefited from becoming social enterprises and the shift from public grants to public contracts, other voluntary organisations are, and always will be, reliant upon the altruism of donors and grant-giving bodies, in order to address the inequalities in our society.

Some of these tensions have arisen from the conflation of social enterprise and the social economy by both practitioners and policymakers. The social economy embraces three very different economic traditions –

- **Altruism**, practised by charities and voluntary organisations, whereby donors give freely to beneficiaries, mediated by trustees
- **Self-help**, practised by many community groups, where people help themselves and each other for their mutual benefit
- **Market trading**, practised by social enterprises which compete with other businesses to provide goods and services, but for a social purpose rather than private gain.

There are other important differences between co-operatives and ex-voluntary sector organisations. Co-operatives are founded on the principle of open membership and democratic control, whereas the voluntary sector has traditionally distinguished between beneficiaries and trustees. But the biggest difference between the two groups is over the interpretation of what constitutes social purpose. Social enterprises arising from a voluntary sector tradition tend to conflate social purpose and charitable objects, whereas co-operatives believe their social purpose is to change the relationship between the stakeholders in an enterprise, challenging the dominance of shareholder interest embodied in capitalism.

UK academic interest in social enterprise has not kept pace either with practitioners or policymakers, especially in the central task of defining social enterprise. This may in part be due to the lack of a focal point, such as a journal or conference, for academic research in social enterprise. University business schools have been slow to pick up on social enterprise, and elsewhere interest in social enterprise is dispersed across a wide array of social science disciplines, ranging from anthropology and economics to geography and social policy.

The importance of defining social enterprise is not lost on all academics. The European research network EMES, which owes its name to its first research programme on "*the emergence of social enterprises in Europe*", has developed a working definition of social enterprise based on four criteria and five key indicators. This definition has had little impact on the thinking of UK practitioners or policymakers, or indeed most UK academics. For instance, Middlesex University, which was commissioned by the SBS to carry out a policy orientated scoping study into social enterprise, did not have a single reference to the work of EMES in its report "*Researching social enterprise*", despite containing a lengthy section on the definition of social enterprise, and concluding that it is important for the SBS to recognise the significance of these definitional issues.

The test of the newly formed Coalition of Social Enterprises will be whether it can resolve the debate about definition before new entrants to the field of social enterprise, and the government, become confused and disenchanted about the nature, purpose and meaning of social enterprise. Academics have a vital role to play in this debate by providing the theoretical and conceptual underpinning to the terms social enterprise and the social economy.

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